

CATAWBA COUNTY, NORTH CAROLINA
June 26, 2007

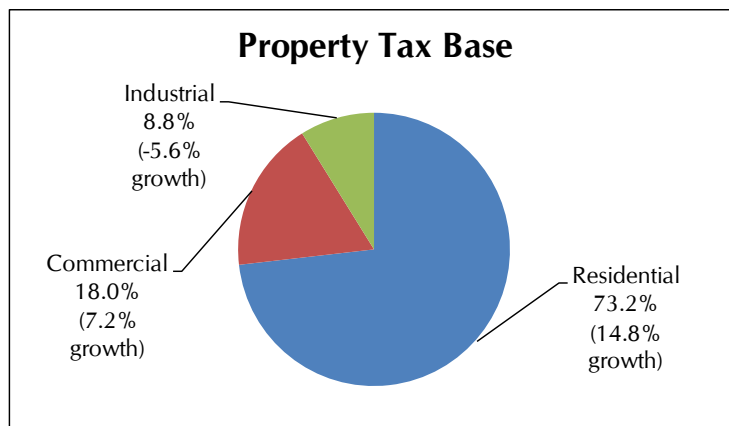
CATAWBA COUNTY BOARD OF COMMISSIONERS

Ladies and Gentlemen:

I hereby submit my recommended Catawba County Fiscal Year 2007/08 budget in the amount of \$256,006,281. The budget is balanced and prepared in accordance with the Local Government Budget and Fiscal Control Act. It funds the debt payments and first full year of operating costs for the expanded Catawba County Detention Center, the next four year cycle of needed facilities for the three school systems and community college, provides badly-needed technology replacements for the public schools, provides new operating dollars to help the schools meet objectives identified in the FORESIGHT strategic plan, and funds needed water and sewer projects. The recommended budget includes a 9 cent property tax increase. The Board of Commissioners, for the last five years, has asked the North Carolina General Assembly and our local delegation for other revenue options to avoid a property tax increase, but to no avail. In December, the Board asked for a local option sales tax. A bill has been introduced, but has not been acted upon. A one cent sales tax would negate the need for the 9 cent property tax increase, but if action is not taken by the State within the next few weeks it will not be in time for this budget year.

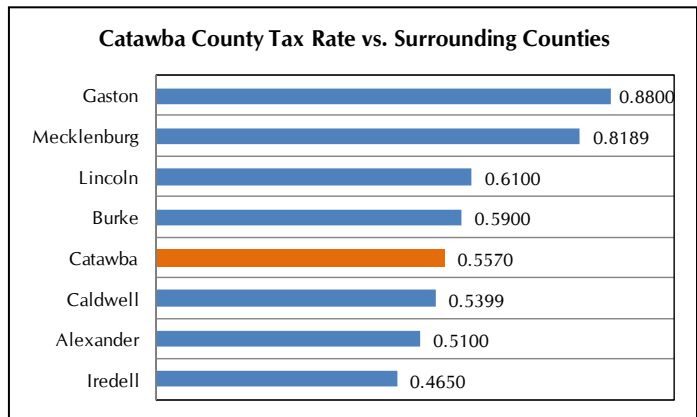
Making investments requires new revenue, either with a 1 cent sales tax or a 9 cent property tax increase

The tax base for Fiscal Year 2007/08 is \$14 billion and includes real property, personal property, and vehicles. The State of North Carolina requires counties to revalue property at least every eight years. We are currently on a four-year cycle which allows for more accurate assessments and less dramatic increases in property values at revaluation for the individual homeowners. Revaluation was completed at the end of 2006 for the four year cycle beginning



with Fiscal Year 2007/08 and resulted in an increase in overall values of about 11%, yielding a revenue neutral property tax rate of 46.7 cents. In other words, 46.7 cents will bring the County the same revenue on the new values that the current rate of 49 cents brings on old values. **A revenue neutral tax rate, however, does not provide the funds we need to take care of the growing needs of our County and pay for State mandates and growing Medicaid costs. This will require additional revenue.**

To date we have been fortunate to maintain one of the lowest tax rates in the State. Our county is 24th of 100 counties in per capita income but 61st of 100 in property tax per capita. A low property tax rate is good, but only if we have other reasonable and reliable revenue options to meet the demands of growth. As our resources become more and more stretched due to growing costs and service needs, it is apparent that continuing to maintain one of the lowest tax rates in the State and having a progressive county that is responsive to our citizens' needs do not go hand in hand. We must be able to address the ongoing building and operational needs of a growing school and community college population, keep up with our growing use of and dependence on technology and the opportunities it presents, maintain safe communities, and meet the public demand for safe drinking water and problems with contaminated groundwater. We must place a higher value on excellent education and continuous learning in order to be competitive in today's global economy and plan for growth by creating diverse economic development that will be able to stand the test of time and economic trends. Careful planning along with strategic commitment and investment will continue to make Catawba County an excellent place to live and work.



Our current tax rate of 49 cents is among the lower 20% in the State for counties. It is 2nd lowest of the twenty-three urban counties. The new rate of 55.7 cents will move us to 6th among the twenty-three urban counties based on the 2006/07 tax survey. The new tax rate would rank fourth of the eight surrounding counties.

FACTORS DRIVING THE NEED FOR NEW REVENUES

Jail - First year operational costs and debt service for the expanded Catawba County Detention Center

Three cents of the new tax rate will be used to pay the increased operating costs and debt payments for the jail expansion, a commitment that was understood when the jail project began in 2003. The \$18 million jail expansion in Newton is scheduled to be fully operational by July 2007. The original facility was built in 1980 and was designed with a rated capacity of 89 inmates. By 2006 the Jail was housing an average of 165 inmates per day with numbers increasing about 10% each year. We long ago outgrew our bed availability in Newton. Since 1996, the County has benefited from a partnership with Burke County which gave us one half ownership of the Burke Catawba District Confinement Facility (BCDCF) and an average of 79 additional beds. This partnership helped to delay our need for jail construction but that facility is also overcrowded, housing an average of 89 Catawba County inmates per day. Exceeding our allowable beds at the BCDCF resulted in the need to rent beds from Burke County at the BCDCF and in some cases from other counties at a cost of over \$110,000 in Fiscal Year 2005/06 alone. The

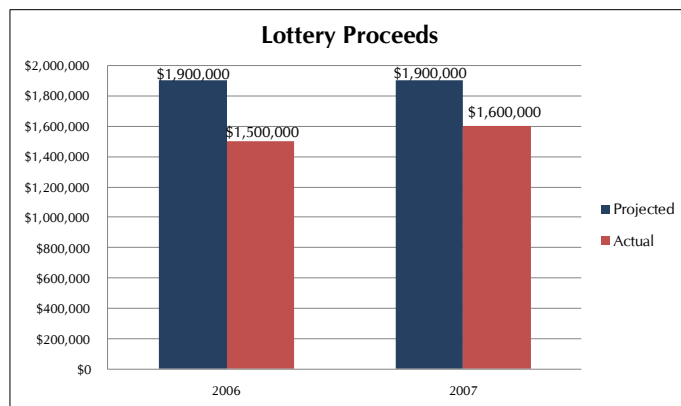
overcrowded conditions in the Newton jail for the past five years have raised serious safety concerns for the officers manning the facility and possible Federal or State intervention that would mandate an expansion, with no local control over the type of facility built.

The new Jail, which now brings the total available beds in Newton to 259, provides more than three times the current physical space and is designed for future expansion. The new space will require the addition of fifty (50) new positions, with increased operating costs totaling \$3.3 million per year. Even with the Jail expansion in Newton, we will continue our investment in the BCDCF to ensure our ability to address the growing jail population. Any beds not being used locally will be marketed for use by Federal prisoners, and funds received from rental of bed space will begin to build a reserve for future Jail expansion.

In an attempt to control the Jail population, we continue to provide funds to the Pretrial Services and Electronic House Arrest programs. Pretrial Services saved the County 3,856 inmate bed days or almost \$120,000 last fiscal year by obtaining bond modifications for inmates charged with non-violent crimes, allowing them to make bail rather than take up needed bed space while awaiting trial and ensuring all warrants are served on inmates while in jail. The Electronic House Arrest Program has the capacity to divert ten (10) inmates per day from the jail, freeing bed space for other needs. The primary targets of this program are child support offenders and individuals serving sentences for non-violent crimes.

Schools - Planning for growth and school building needs

A new school construction cycle will begin in July, requiring an additional three cents on the property tax rate in addition to up to \$1.4 million in lottery proceeds. We have just completed a four-year funding cycle of construction and renovation for the three public school systems and community college. Taking advantage of low interest rates, the County borrowed money for critical school building needs using a financing option called Certificates of Participation (COPs) and set a property tax rate to pay off the bonds. The past four years saw construction of a new Grandview Middle School and Maiden High School, the conversion of Tuttle Middle School to an elementary school and Maiden High to a middle school, a Learning Library and Technology Center at Catawba Valley Community College (CVCC) and, most recently, a new Catawba Elementary School scheduled to open this school year.



We have known that an Education Lottery was not going to be the solution to meeting all the needs for school construction. With the average construction cost of today's elementary school reaching over \$12 million it would take much more than the

\$1.9 million originally projected to come to our County to fund the needs of our three school systems. Now, slower than projected lottery sales indicate our proceeds may actually fall short of original projections by about \$400,000.

To prepare for the next building cycle, the school systems and CVCC worked together to develop an \$85 million, four year construction and improvement plan. According to the

Growth Estimation Model completed by the Western Piedmont Council of Governments, Catawba County elementary schools on average are at 116% of building capacity and the high schools 113%; Hickory elementary schools average 110%

Catawba County Schools' elementary schools on average are at 116% of capacity, Hickory at 110%, and Newton-Conover at 107%.

of capacity and the high school 127%; and Newton-Conover elementary schools average 107% and the high school is at 100% of capacity. Many of these schools are 40 to 50 years old, with original buildings dating back to the 1950s and 60s. Changing building regulations and acreage requirements mandated by the State have limited the ability to add on to existing schools and increased the size and cost of new schools being built. Mandated reductions in class sizes over the past several years have increased the number of classrooms needed, creating more space issues. Previously, the State allowed 29 students in a class, using 35 classrooms for every thousand students in grades K-3. With new State class requirements, 47 classroom spaces are now necessary to house the same number of students. Changing curriculum requirements are resulting in the need for small group spaces for which existing schools were not designed, such as computer labs, English as a Second Language (ESL), exceptional children's programs, and mandated programs like More at Four which led to the need for pre-K classes.

The new funding cycle, which begins in July, will require an additional 3 cents on the property tax rate in addition to lottery proceeds of up to \$1.4 million to pay the debt on \$85 million in projects. This will provide for renovations and expansions to existing buildings plus new school construction for our three school systems and give Catawba Valley Community College's 50 year old campus a much needed upgrade. It should result in the elimination of approximately 30 of the current 55 mobile classrooms in the Catawba County School System. The following projects have been identified for funding:

Catawba County Schools

- Bunker Hill High School - a new cafeteria, addition of 3 classrooms and improvements to athletic facilities
- Bandys High School- a new cafeteria and the addition of 15 classrooms
- Fred T. Foard High School - a new cafeteria, addition of 3 classrooms, and athletic facility improvements
- St. Stephens High School - track and athletic facility improvements
- new Snow Creek Elementary School in the St. Stephens District

- renovations and additions to Webb Murray Elementary School
- new cafeteria and addition of 3 classrooms at Clyde Campbell Elementary School
- 12 classroom addition at Arndt Middle School

Newton-Conover City Schools

- construction of a new middle school on the County Home Road property (the current middle school will be converted to an elementary school to replace Thornton)
- Newton-Conover High School - renovations to include the addition of 6 classrooms, parking lot paving, upgrades to bathrooms and the HVAC system at Newton-Conover High School
- Newton-Conover Middle School – renovations to convert it to an elementary school

Hickory Public Schools

- Hickory High School - a 2 phase project for renovations at Hickory High School to include replacement of the roof, exterior windows and asbestos panels, enclosing the open area between the main building and the gym, upgrades to the HVAC system and all wiring and plumbing

Catawba Valley Community College

- new Truck Driving Training Facility on land donated by the County at the closed Newton landfill
- renovations to the Student Center and Bookstore
- Student Services Building
- roofing and paving projects
- renovations to the East Campus and the Art Center
- construction of a new vocational building.

Our schools lag behind in up-to-date technology for students

An additional one cent, which equals \$1.4 million, will be allocated to the schools on a per pupil basis to provide needed upgrades to technology. The State has not provided significant new dollars to the schools for technology since the 1993 State bonds, and State funding for technology has decreased by approximately 50% since 1998. In our school systems, over 60% of the desktop computers are more than 5 years old and the ratio of students to computers has fallen below the State average. This additional penny on the tax rate will help the schools update equipment, increase the number of computers available to students, and work toward a goal of creating “smart classrooms” that provide teachers with the tools they need to present timely information in a format that meets the different learning styles of today’s students. These funds will be available on an annual basis so we

In our school systems, over 60% of the desktop computers are more than 5 years old.

don't fall behind. The availability of up-to-date technology also provides an important incentive for our school systems in recruiting and retaining good teachers.

Addressing current expense needs in our schools

The responsibility for public education is a partnership between the State and counties. While counties provide supplements to teacher salaries, it is the sole responsibility of the State of North Carolina to set base teacher pay. Competitive pay must be the commitment of the State, through base pay and the County, through supplements, to effectively recruit and retain quality teachers. However, a property tax base that is growing at 2% cannot keep up with State mandated salary increases of 8% in Fiscal Year 2006/07 and a proposed 5% increase in the new fiscal year. Truly funding the needs of our three school systems and meeting the demands of today's classrooms will require more than bricks and mortar. A recent report in Governing Magazine shows that North Carolina is 47th in per capita spending for education and 43rd in overall spending per pupil. In the State, Catawba County currently ranks 39th out of 100 counties. For a county that has always been considered a leader in services and innovation this is not good enough.

One cent of the tax increase is dedicated to schools' current expense for the three school systems. Our school population continues to grow with projected numbers for Fiscal Year 2007/08 showing an increase of 469 students, an amount comparable to an average size elementary school, so it is imperative that we plan for the building and operational costs to accommodate growth and continue to implement FORESIGHT.

Growth of 469 students is comparable to an average size elementary school.

FORESIGHT established strategies that target improvement in education

The 2001 FORESIGHT study developed strategies for Catawba County's long-term economic growth over the next ten to fifteen years. Education recommendations included:

1. Provide flexible funding for innovative programs to improve achievement scores.
2. Hire more reading, math, and ESL specialists to lower the "achievement gap" for minority and low-income children.
3. Increase the number of nurse, social workers and mental health professionals in schools across the County.
4. Increase average teacher supplements to top 5% in North Carolina within 5 years.
5. Increase local funding for schools to improve student outcomes.

A Board of Commissioners goal for Fiscal Year 2007/08 is continued implementation of FORESIGHT strategies. This budget continues to fund some of the FORESIGHT recommended strategies, including the addition of thirteen school nurse positions which improved the school nurse to student ratio, and continued funding for the additional 2% teacher supplement which increased the possible supplement total for teachers to 9%. Meeting other FORESIGHT recommendations will require additional dollars. The budget

includes a one cent tax increase for school current expense to provide funds to meet operational costs and continue implementation of new FORESIGHT initiatives.

Water and Sewer

One cent of the tax rate will be earmarked for funding Countywide water and sewer needs. In Fiscal Year 2003/04, one cent was diverted from the Water and Sewer Fund to help fund schools' construction. This budget restores the one cent for water and sewer. As the County continues to grow and we deal with septic tank failures, water table problems, and pressures created by increased growth, that penny needs to be restored for water and sewer projects. Total identified needs currently exceed \$160 million. The additional one cent equals \$1.4 million which will pay for four water projects, averaging \$360,000 each, or possibly one sewer project, averaging \$1 million to \$4 million.

MAKING THE MOST OF OUR RESOURCES AND PURSUING REVENUE OPTIONS

Our local economy is feeling the pressures of growth

For the past five years we have been challenged with lower than average increases in the County's property tax base while faced with growing State mandates, like Medicaid, and operational costs, especially in the area of fuel, essential to the delivery of County services. Where we previously had been able to count on 3 ½% increases in the tax base each year, we have managed with increases anywhere from ½% to a high of 2% projected for Fiscal Year 2007/08 through spending cuts and the postponement of capital needs. Sales tax growth has been better, with projections of 3% growth for the next fiscal year, but sales tax only contributes 15% of the County's revenue. However, it does indicate that our local economy is looking better. In July 2006 our local unemployment rate reached a yearly high of 6.4% but March 2007 numbers show a much improved rate of 5.3%. The average annual wage paid per worker in the metro area has increased steadily during the past five years, even through considerable periods of job losses.

As the hub of the region's economy, Catawba County has grown more than the other Unifour counties since 2000. The growth has been modest but steady, influenced by the

Sherrills Ford population is expected to increase 38.2% by 2015.

population growth around Lake Norman. Southeastern Catawba County is projected to be the highest growth area in the county. Population growth in the Sherrills Ford area between 2005 and 2015 is projected to be 38.2% or roughly 14,535 people. Increased population will result in increased service demands in virtually all aspects of County government.

The Unified Development Ordinance (UDO), adopted by the Board of Commissioners on February 5, 2007, incorporated recommendations from the seven small area plans which were prepared from 1999-2005. The small area plans recommended retaining two-acre zoning for approximately 50% of the land area in the County, releasing the two-acre zoning requirement Countywide tied to available school capacity that had been in place since 1999. During the public hearing process for the UDO, concerns were raised by

homebuilders, realtors, the business community, and property owners over the impacts of the two-acre zoning on affordable housing. With these concerns in mind, the Board modified the small area plan recommendations and rezoned approximately 50% of the County to 1-acre lot sizes. The increased development opportunities with 1-acre zoning will have a greater impact on County services beyond what would have been realized under the previous two-acre zoning. Those services most directly impacted are schools, public safety, libraries, water and sewer. The Western Piedmont Council of Government's 2007 Growth Estimation Model will reflect the one-acre zoning in new school enrollment numbers to be released in summer 2007. New growth will accelerate the need for new parks and passive recreation opportunities in the County. The UDO provides a mechanism for an "in-lieu of" fee payment by the developer which will be placed in the County Parks Trust Fund to help fund additional parks and passive recreational needs. The "in-lieu of" fees will not totally support the recreation needs generated by the development but will help offset some of the costs for land acquisition or facility construction. Additional funding will be needed to fund libraries, public safety and other support services which will be generated by the additional growth.

We continue to seek new revenue options

For several years we have sought new revenue options to meet the burden of State mandates and the demand for increased services. The General Assembly in the past has granted options to some local governments for special fees and taxes on land transfers, meals, sales, occupancy, etc., but this authority has not been granted to all cities and counties. This past year, Catawba County joined forces with several other counties to seek legislative authority to add a local option sales tax to provide needed revenue for school construction and operations, jail expansion, and Countywide water and sewer projects. It is my belief that if given a choice most citizens would prefer to pay for County services through sales tax since it captures revenue from those who live in the County but don't own property, as well those who live outside the County and come here to visit, shop, and work, thus spreading the burden for the cost of providing services so that it does not fall solely on County residents. Groups that have supported a new sales tax option include the Home Builders' Association, Chamber of Commerce, Farm Bureau, AARP, Catawba County Board of Education, and the Cities of Newton, Conover, Claremont, Hickory, and Catawba. Local government is charged with delivering services, many of which are mandated by the State. The State should give local governments some flexibility on how to raise money so that year after year it is not the same people who bear the burden or pay the price for those services. Everybody does not own property, but everyone does purchase goods so a sales tax would spread the responsibility of paying for education and other County services to all citizens. A one-cent sales tax based on point of delivery is equivalent to just over 10 cents on the property tax rate. If Catawba County could secure a one-cent sales tax increase, the Board of Commissioners could lower the property tax rate next year to 45.7 cents while still meeting all of our financial needs.

A one-cent sales tax increase could lower the property tax rate next year to 45.7 cents and still meet our financial needs.

Other new revenue options that have been considered include a land transfer tax and impact fees. Though a land transfer tax could generate as much as \$5.6 million, it is still a tax on the property owner. Impact fees, a charge imposed upon new construction to pay for increased government services, is another revenue option that has been considered. However, a recent study commissioned by the County indicates that the estimated annual revenues would not come close to meeting the identified needs for school construction for the Newton-Conover City Schools or Hickory Public Schools. The projected amounts would only leverage \$3.2 million in debt over 15 years for Hickory and \$1.2 million for Newton-Conover and still affects property owners. Impact fees for the Catawba County Schools' system could leverage \$47 million in debt cost, but the fee on a single family unit would be over \$6,000, which is not reasonable. Additionally, impact fees are another tax on the property owner.

Permanent relief from mandated Medicaid costs is needed

If the State assumed the cost of Medicaid, the County could lower the property tax rate by 5 cents! Medicaid is one of the largest single budget items for most counties. The average growth in Medicaid of 9% each year has outstripped the growth in the property tax base, projected at 2% in Fiscal Year 2007/08.

Relieving counties of the Medicaid mandate has been the number one goal of Catawba County and all 100 counties for the past several years. Several bills have been

If the State assumed the cost of Medicaid, the County could lower the property tax rate by 5 cents!

introduced that would provide a permanent cap on Medicaid costs based on Fiscal Year 2005/06 levels. Without this cap, the County's share of Medicaid for Fiscal Year 2007/08 could be as high as \$7.5 million. Though capping the cost at Fiscal Year 2005/06 levels does not relieve us fully of participation in Medicaid costs, it offers some relief from this escalating burden. The goal remains to eventually phase out the county share over several years. As a reminder, North Carolina is the only state that requires counties to pay a significant portion of Medicaid costs, even though counties have no latitude in the Medicaid Program.

The County has been diligent in looking at cost effective ways to provide services and plan for our economic future

In the past several years we managed to weather the downturns in our local economy through the prudent budgeting, spending, and cooperation of our departments, schools, and outside agencies. In some cases, this resulted in reductions in staff or reduced service hours but always with the goal of not diminishing the quality of our core services or the investment in the County's economic future. Budgets were reduced by a total of 13% over two fiscal years from 2001 to 2003 in anticipation of losing State revenues. This meant that purchases were postponed, stretching the life of computer equipment and vehicles where possible, freezes were imposed on travel and training, and about 19 positions were abolished. We did not fully restore funding the following year, even with the replacement of State revenue from the new half-cent sales tax. This allowed us to set funds aside to help

absorb the unplanned loss of \$1.5 million in property tax revenue as a result of 2003 revaluation appeals. We responded to the need and chose to reduce spending rather than go back to the citizens to solve our funding problems. The County continues to reduce costs. However, with approximately 47% of our local funding dedicated to education, any major budget reduction would result in decreased funding to schools of about 47 cents of every dollar. Given our growth and identified needs this is not a realistic option.

Any major budget reduction would result in decreased funding to schools of about 47 cents of every \$1.

Maximizing our resources

County departments are continuously working to secure grants that help the County fund programs in areas such as public safety, human services, and environmental quality. Over the years the use of grant funds has provided revenue to improve services and implement new programs. For the past five years, we have been successful in averaging over \$5.6 million in grants annually, with \$6.7 million received in Fiscal Year 2006/07 alone.

In order to build jobs and strengthen the economy, our philosophy has been that we should contract for services when the private sector can provide the service at the same or better level, and at the same or lower cost, than the public sector. In keeping with this philosophy, the budget includes \$18 million in contract services with the private sector.

LOOKING TO THE FUTURE AND IMPROVING SERVICES

Economic Development

Knowing the importance of investing in our economic future, we continue to fund 52% of the Economic Development Corporation (EDC), charged with supporting our current industrial base and recruiting new industries. In the past five years this has included new marketing efforts to recruit large non-manufacturing businesses to our area.

Efforts of the Economic Development Corporation continue to produce promising results for our local economy. During calendar year 2006, businesses announced investments totaling \$674 million in Catawba County which will create 1,430 new jobs. One of the major highlights of these investments was Target Corporation's announcement of their intent to build a 1.5 million square foot distribution center in Newton, bringing 580 new jobs to the area that pay at or above the median average wage for all insured industries in Catawba County.

Some other business announcements with positive local economic impacts include: a 60,000 square foot expansion to Fiber Line Inc. creating 25 new jobs; Moretz Inc.'s merger with Gold Toe Investment Corp. creating the largest U.S. sock maker; von Drehle Corporation planning a 60,000 square foot expansion in Newton; BioTech Industries opening a new facility in Newton expanding its product line to include BioFuels;

and Aqua Plastics Inc. planning to open a facility in the former Gilbert Hose Building in Hickory.

The budget provides additional funding to the EDC for the development of unique leads to Catawba County through target research on most favored businesses such as data centers, auto suppliers and foods. It funds the development of a web-based “hot-line” for industry to provide assistance and problem-solving. Funds are also included to increase staff time devoted to business recruitment, and the County continues to support the concept of a multi-jurisdictional park.

We continue to promote our County and stimulate the local economy through support of the Convention and Visitors Bureau, the Chamber of Commerce Visitor Information Center, and the Greater Hickory Golf Classic. This will be the fifth year of the Golf Classic, which has an economic impact of approximately \$35 million annually in our County. Funds also are included for the County’s share of the expansion of the Hickory Metro Convention Center which brings money to our local economy through the promotion of conventions and conferences.

Planning for the future and service improvements

For Fiscal Year 2007/08, several changes have been made in the way we do business to improve the use of existing resources, avoid future costs, and improve services provided.

Technology enhancements

The County continues to invest in technology designed to improve staff’s ability to deliver services to the public and improve our overall efficiency. Funds are included in the budget for the following:

- Laptops with air cards and GPS systems are being placed in patrol cars and ambulances to improve access to information in the field, increase the amount of time spent in the field, and ensure the closest available units are dispatched to calls for service.
- Mobile Highway software used by Building Inspectors will be upgraded to allow inspectors to send automated emails to utility providers, alerting them that inspections are complete. This feature will also allow an inspector who sees an erosion control problem to automatically notify erosion control workers of the situation.
- This will be the first full year of operation of the Citizens’ Alert Notification System. The County received a Homeland Security Grant in the amount of \$145,110 and a \$6,000 grant from Duke Energy toward what is known as a “reverse 911” system. The system can be used by Emergency Services, law enforcement, schools, etc. to send 5,760 one-minute messages per hour by phone, email, text, PDA or Blackberry, notifying people of an event/disaster on a geographic basis. The ongoing cost of the system will be funded through a partnership of the participating agencies including the County, the municipalities (except Brookford and Longview), the three

public school systems, the Community College, and Catawba Valley Medical Center.

- The County has invested in a SAN Virtual Server System that will be funded over the next four fiscal years to ensure the ability to recover from the loss of the data center in a matter of hours rather than weeks. Not only will the new system provide us with this critical disaster recovery, it will save the County approximately \$300,000 in individual box server replacements that would have been necessary during the same time period.
- The County upgraded its antiquated analog phone system to a Voiceover IP (VoIP) Phone System using existing funds in departmental budgets for phone service. The new system provides numerous benefits including unified messaging and a built-in redundancy to ensure phone lines remain accessible to citizens. VoIP also provided an added benefit of replacing the current switches over which the County's data network runs. All of these switches were at least five years old and in need of replacement in the near future which would have cost \$300,000 to \$400,000.
- Current technology is surpassing the existing telephone and mapping systems in the E-911 Communications Center. Both systems will be upgraded in order to keep up with these advances and to better serve the citizens of Catawba County through improved tracking of calls as well as enhanced ability to receive wireless and VoIP calls. The current telephone and mapping systems are over five years old and will no longer be under service contract in September 2007. These systems are critical to dispatching the appropriate public safety agency to emergency calls. The cost of these upgrades will be covered by the existing 911 surcharges for household and cellular phone services.

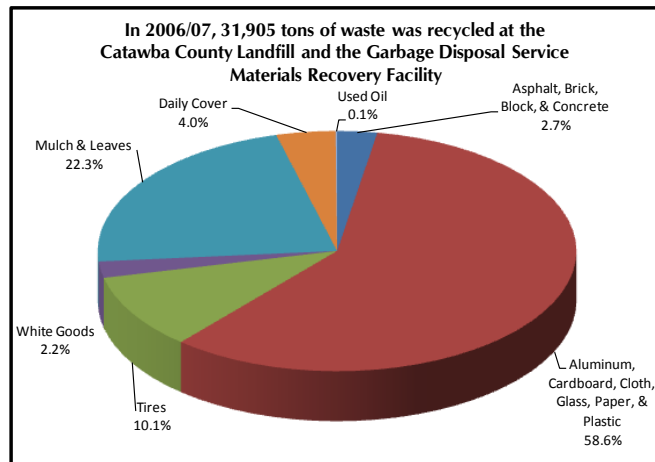
Early voting opportunities expanded

In an effort to decrease voting lines and ensure every citizen has ample opportunity to vote, funds are included in the budget to expand one-stop early voting opportunities. A new one-stop site will be added at the Sherrills Ford Fire and Rescue Base. This will increase the number of early voting locations to three, with the other two sites at the Main Library in Newton and the Highland Recreation Center in Hickory. Hours of operation for all three sites will be extended and additional equipment will be available to increase voting opportunities for citizens.

Blackburn Landfill's next 5-year cell

Expansions to the Landfill are phased in with the construction of new cells as space becomes needed. Each new cell is projected to last five years. Costs for construction, quality assurance, and engineering inspection services are included for the next 5-year cell at the Blackburn Landfill. Currently, the Landfill receives and processes approximately 168,000 tons of commercial, industrial, and residential waste each year. The Construction and Demolition Landfill receives and processes 41,000 tons of land clearing debris, shingles, sheetrock, and all other construction materials annually.

Operating costs are increasing for Landfill operations for several reasons. State and Federal requirements increase cost. Each year, demand increases as more waste is generated by Catawba County citizens and businesses. Costs for post closure and closure increase, as well as the need for reserves associated with financial assurances. The impact of all of these increased costs is that, for the first time since 1993, an increase in tipping fees may be required next year to ensure continued viability of the Solid Waste Fund. This year tipping fees will remain \$30 as they have for the last fourteen years, but a \$5 increase may be required in Fiscal Year 2008/09 in order to continue to meet State requirements, our growing costs and solid waste disposal needs.



Sherrills Ford Branch Library

Beginning in Fiscal Year 2007/08, \$375,000 will be set aside each year through Fiscal Year 2010/11 for a new branch library in Sherrills Ford. The adopted Sherrills Ford Small Area Plan and the Library Facility Master Plan developed in 2001 recommend improving service to support the growing needs of citizens in southeastern Catawba County. The existing facility is outdated and inefficient to accommodate the library services and functions necessary to address the service area population. A new branch library will include a children's area, an adult reading area, a meeting room, and up-to-date technology. This new branch will be located in the Village Center development as part of the 2 acres of land Crescent Resources has agreed to donate to the County for community services per the development agreement with the Board of Commissioners.

County takes a positive, proactive approach to Code Compliance

In the past, the approach to code compliance in Catawba County has been complaint driven. Staff did not actively seek out violations; rather, they were reactive to issues that surfaced based on information provided by citizens or other interested parties. During discussions surrounding the Unified Development Ordinance (UDO) and home occupations, the Board of Commissioners expressed a desire to be more proactive with code compliance. Accordingly, an additional code compliance employee was added in April 2007 and an existing code compliance employee associated with Planning, Parks, and Development was reassigned to Utilities and Engineering. With the new position, this provides a total of three code compliance staff, given the new title of Code Compliance Technicians. These technicians will actively seek out violations but, instead of simply issuing punitive violations, they will first work with business and property owners to educate them about the code requirements and help them come into compliance in a concerted effort to improve customer service and public relations.

Code Compliance Technicians will be cross-trained in areas of Erosion Control, Solid Waste, and Zoning and Land Use.

ENVIRONMENTAL

The budget provides funds for the County to continue working with other municipalities in the legal opposition to the Concord-Kannapolis Interbasin transfer of water from the Catawba River Basin to the Rocky River Basin. The Catawba River and its tributaries are not an unlimited supply of water, and Catawba County and the Greater Hickory area is considered a growth area similar to Concord and Kannapolis with additional water needs in the future. We strongly feel that this transfer has the potential to cause problems for our county if there are future droughts and could be detrimental to communities all along the Catawba River Basin.

In regard to air quality, our greatest concern continues to be the County's level of Particulate Matter (PM) 2.5, which is a complex mixture of extremely small particles and liquid droplets that can be emitted directly or formed in the air from gases. Particulate Matter is associated with health risks, can harm the environment, and is also the major source of haze that reduces visibility in many parts of the United States. While the EPA website lists air quality in Catawba County as good, the EPA's standard for PM 2.5 puts us at non-attainment status. For Catawba County, this could mean the potential loss of revenue from new businesses and consumers, as well as the potential loss of a significant number of jobs. In simple terms, the air quality concerns could result in less freedom for individuals and more restrictions on economic development in Catawba County. Therefore, the County continues to pursue regional solutions to our air quality concerns at the local, State, and Federal levels. The budget includes funds to pay the County's share of air quality efforts, working regionally through the Western Piedmont Council of Governments. County government employees engage in an air quality awareness program each summer that includes an ozone reduction contest.

The County continues to explore ways to save energy and take positive steps toward improving our environment. This year the budget includes four hybrid vehicles that will bring our total hybrid fleet to fourteen. We are also using bio-diesel fuel in our ambulance units which is more environmentally friendly.

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Schools were encouraged to incorporate "green" concepts into their building plans as the new schools are built. In addition we have performed energy audits on our facilities to reduce costs and improve efficiency.

Eco Complex

The County continues efforts to expand the Eco Complex at the Blackburn Landfill, a public-private partnership to take advantage of synergetic relationships to the benefit of the environment and local economy. Private companies have been recruited to co-locate

operations with the landfill. Waste products from the businesses will then be converted into energy to operate the Landfill, the businesses, and the sludge maintenance facility.

Gregory Wood Products has been operating since August 2005 and currently has two 12-hour shifts 6 days per week. They have 93 direct employees at this facility and are purchasing 5,000 to 6,000 tons of logs per week at an average of \$40 per ton (generating \$9 million to \$10 million annually for the area economy). Their latest tax value is \$14,123,037. Pallet One is under construction with an anticipated startup in July 2007. Pallet One will employ 35 people and have an anticipated investment of \$5 million. The County is continuing negotiations with greenhouse companies interested in locating in the Eco Complex. Appalachian State University (ASU) has received a grant from the Golden LEAF Foundation for a biodiesel research facility to be located in the Eco Complex and which will use the electricity and heat created by the County's existing co-generation units. ASU and the County are in the process of defining the terms for this partnership.

County staff is currently reviewing responses to the RFQ/RFP for a bioenergy facility that will be located in the Eco Complex. The bioenergy facility will be constructed under a Design Build Operate and Own agreement. Under this agreement private funds will be used to design, build, and operate the facility, and the County will take ownership of the facility over a period of time, which is anticipated to be 20 years. This bioenergy facility will convert biomass (sawdust, woody and cellulosic waste) from Gregory Wood Products, Pallet One, and the Blackburn Landfill into useable "green" energy in the form of steam and heat. This energy will be used by Gregory Wood Products and Pallet One in their wood drying kilns and it will also be used by the County in the sludge management facility and to generate electricity.

In addition to these efforts, Catawba County continues to extract methane gas from buried Landfill refuse, which is then burned to generate electricity. The Blackburn Landfill Facility handles approximately 650 tons of waste per workday. The County's Landfill Gas to Energy Facility produces over 16,000

The County's Landfill Gas to Energy Facility produces profits of \$150,000 and retains the credit for producing clean energy.

mega-watts of electricity with energy sales in excess of \$500,000 and profits of approximately \$150,000. Despite selling the energy, the County retains the credit for producing clean energy. A Renewable Energy Attributes market is developing in the United States that involves the buying and selling of renewable energy 'credits' in intra-, and inter- state transactions. Catawba County, as a low emission renewable energy source electrical generator, is in a position to financially benefit from this new market. As a result, the County also sells Green Credits through Amerex Emissions, Ltd. a brokerage company that specializes in providing energy-trading services for major oil companies, natural gas producers, electric utilities, municipalities, and independent sovereign states. The sale of these Green Credits results in an additional \$30,000 revenue annually to the Solid Waste Fund.

Finally, the central and driving force of the Eco Complex--the Blackburn Landfill-- has had its viability solidified through the approval of the Blackburn Landfill Site Study by North Carolina Department of Environment and Natural Resources. **The approval of the Site Study confirms the life of the Blackburn Landfill will be extended for at least 65 years.**

Recycling efforts

Catawba County continues to be a leader with regard to recycling, ranking 3rd in the state in 2006, and educational outreach efforts to promote good stewardship of our natural resources. Recycling 19% of its waste, Catawba County ranks among the top in the State, per capita, for recycled materials. In Fiscal Year 2005/06, the County recycled 395 pounds of material per person, which is approximately three times the State average of 115 pounds.

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The budget continues to fund two Household Hazardous Waste events per year, held the first week in May at the Government Center and the first week in November at L.P. Frans Stadium in Hickory. These events provide an opportunity for citizens to dispose of residential household hazardous waste in an environmentally sound manner. The event held in May 2006 resulted in 454 vehicles representing 529 households dropping off 43,890 pounds of household waste such as aerosols, alkaline batteries, pesticides, paint and household cleaning products, and 14,938 pounds of electronic waste such as telephones, computers, fax machines, and televisions. The event held in November 2006 was even more successful resulting in 503 vehicles representing 598 households dropping off 55,519 pounds of household waste such as aerosols, alkaline batteries, pesticides, paint and household cleaning products, and 29,099 pounds of electronic waste such as telephones, computers, fax machines, and televisions.

EDUCATION

Funding for the schools' and CVCC's ongoing operating and annual capital

Almost half of the County's local revenues go toward funding the instructional costs and capital needs of our three public school systems and the community college. The County is required to fund each school system an equal amount per pupil. Two cents of the tax increase is earmarked for school current expense needs. The budget includes an increase of \$135 per pupil for school operations which provides flexibility to use these additional funds for some of the initiatives outlined by FORESIGHT for educational improvements, and for ongoing technology needs for the three school systems. Once again State certified numbers show that enrollment appears to be increasing in the Catawba County schools with an increase of 486 students. Hickory Public Schools will decrease by 24 and Newton-Conover Schools will increase by 7 students. Since funding is on a per pupil basis

this will provide Catawba County Schools with an overall increase of 13%, Hickory Public Schools, 10%, and Newton-Conover City Schools 10%.

Schools' capital projects included in the budget and funded with local dollars and State Average Daily Membership funds next year include:

- Catawba County Schools: technology at the new Catawba Elementary School, seven school buses, systemwide roofing projects, replacement of HVAC unit at St. Stephens High, replacement of three maintenance vehicles, emergency generators for the central office and annex computer systems, gym bleacher replacement at Sherrills Ford, Blackburn, and Banoak Elementary, and replacement of the gym floor at Maiden Middle School.
- Hickory Public Schools: Replace HVAC at Jenkins Elementary, asbestos removal at Hickory High School, and two new maintenance trucks.
- Newton-Conover City Schools: final phase of replacing multi-zone heating/AC units at Newton-Conover Middle School, air conditioning units in Newton-Conover High computer lab, asbestos management, covered walkways at Shuford Elementary, one maintenance vehicle; and renovations and paving at the Community Schools building.

The Capital Outlay Budget also includes \$48 per pupil for small capital and repair needs costing less than \$12,500. The individual school systems decide how these funds will be spent throughout the year.

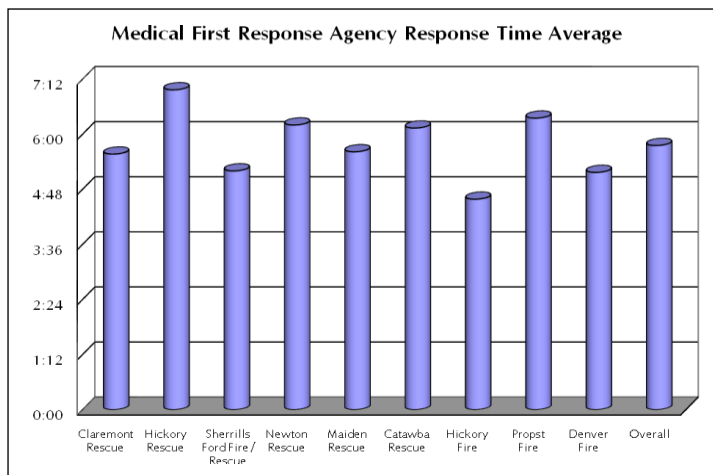
Capital projects for Catawba Valley Community College include HVAC replacement, van replacement, an upgrade to the Energy Management system, and funds for general renovations and paving projects.

PUBLIC SAFETY

Emergency Services

The budget for Emergency Services includes the replacement of three ambulance units and a Quick Response Vehicle in keeping with the replacement schedule that is part of the Emergency Services Plan. On the revenue side, increased collections of ambulance fees reflect the growing EMS call volume.

Emergency Services continues to maintain a response time of 8 minutes for Emergency Medical Services and 6 minutes for rescue.



This past year, for the first time, Newton-Conover Rescue joined other rescue squads in meeting response time criteria. Emergency Services is working with both fire and rescue to develop a recruitment package that can be presented at job fairs and high schools. The goal is to promote the importance of volunteerism so that we can retain and gain volunteers.

Ten of the fourteen Fire Districts requested to maintain their current tax rate as opposed to the revenue neutral rate as a result of property revaluation, and nine are recommended. These districts--Hickory Rural, St. Stephens, Conover, Sherrills Ford, Bandys, Maiden, Claremont, Catawba and Newton--will use the additional funds generated toward replacement of capital equipment, ongoing operational costs, and in some districts new or expanded facilities. They are addressing the need for manpower and buildings in order to meet response time criteria established in the County's Emergency Services Strategic Plan. All Fire Departments are now part of the local fire association which means they will be working together on long range planning which ties into the Emergency Services Plan. The focus is to look at needs based on growth and help map a long range plan for providing fire service

Sheriff

The budget includes funding for two new Road Patrol Deputies. These officers will be primarily assigned to the southeastern portion of the County to provide additional peak time coverage. This area is experiencing the highest number of calls for service and, as a result, slightly higher response times.

Two new deputies are assigned to the southeastern portion of the County to provide peak time service.

A Narcotics Investigator will be added this fiscal year to increase the investigative capacity of the Narcotics and Vice Division. In 2006, the division received 365 tips requiring follow-up in addition to performing general investigations and working with the Catawba Valley Drug Task Force.

Catawba County Schools is moving the SEED program from its current location at Catawba Valley High School to the Catawba Intermediate School. The SEED program is designed for students that are experiencing problems in a regular school setting. A School Resource Officer (SRO) is added to help provide a safe and orderly environment for students and staff. The school system will provide 100% of the funding for salary, benefits, indirect cost, and training through its State At-Risk funds, as it currently does for the five high school SRO positions. The Sheriff's office will be responsible for supplying all other operational needs for the position.

HUMAN RESOURCE AGENCIES

Public Health

Overall, revenues continue to decrease while demand for service increases due to uncompensated care. The areas this impacts most are Women's Health, Adolescent Health, and Maternal Health programs. With 59% of the budget coming from fees, Public Health is trying to maximize funds that can be billed and look at all revenue sources, including private and State grants. Several budget decreases, mainly freezing positions, that were made in the Fiscal Year 2006/07 budget to help offset the cost of uncompensated care remain in place. In Fiscal Year 2005/06 the total uncompensated care, less all State/Federal dollars, totaled \$1.4 million. In addition, Public Health is required by the State to provide staff and contract interpreters at a cost of \$174,000 for which they receive no State compensation. Other losses on the revenue side include a small decrease in funding for bioterrorism. There have been no decreases in the State's mandates for preparedness since 9/11 but we are starting to see a decrease in the funding.

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Mental Health

The County continues efforts to meet the State's mandates for mental health reform. As part of that effort, Burke County approached Catawba County about the possibility of merging. On March 26, 2007, the Burke County Board of Commissioners voted to withdraw from their existing local managing entity (LME), Foothills, and partner with Catawba County to administer mental health services. The Catawba County LME Board and the Board of Commissioners endorsed this action and agreed that services would be provided through an interlocal agreement between Burke County and Catawba County effective July 1, 2007. This interlocal agreement will remain in effect for one year while the details of the full merger are addressed. The intent is to have the full merger completed and implemented by July 1, 2008.

Social Services

This year was the second year in which Social Services operated as an "Electing County" under the Temporary Assistance for Needy Families (TANF) program. As an electing county, Social Services was able to save funds for cash assistance due to local policy changes outside the standard State TANF plan and because of lower case loads. They were then able to move these funds from cash assistance to services. Because of the County's innovative delivery of these services, TANF recipients moved more quickly to higher levels of personal responsibility and economic self-sufficiency than even originally

Social Services projects they will move almost \$1 million to child welfare programs by the end of their two-year electing status.

projected. As a result, Social Services projects they will move almost \$1 million to child welfare programs by the end of their two-year electing status.

Next year, State funding is changing though and, as a result, TANF funding will be decreased by 31%, resulting in a \$494,000 loss in funding. The “Electing County” status will also expire, forcing Social Services to reapply if the program still exists. Depending on caseload, continuing may or may not be advantageous. If caseloads drastically increase with the reduction in funding, it could require additional county dollars to operate the program. On the other hand, if caseloads remain stable we should continue to realize savings, even with the reduced funding.

PERSONNEL

The budget includes a net increase of 13 FTEs, 5.5 of these requiring County funds. The Sheriff’s Department will add five new positions, including 2 Road Patrol Deputies, 1 Transport Officer, 1 School Resource Officer funded by Catawba County Schools, and 1 Narcotics Investigator. The Board of Elections will hire a .50 Elections Specialist; the Animal Shelter will add one new Kennel Technician, and a .50 E-911 Technician will be added in GIS.

A reduction of 1 FTE is due to Public Health abolishing 1 Child Service Coordinator FTE as a result of Burke County becoming the provider of Child Service Coordination for their County. Mental Health has an additional 9 new positions as part of the new inter-local agreement with Burke County and a reduction of 2 current FTEs for a net increase of 7 FTEs.

The budget includes a 1% cost of living adjustment to keep salaries competitive. Other salary adjustments will continue to be earned based on performance, as judged on employees’ anniversary dates. For those who meet annual expectations, 1 ½% is budgeted; for those who exceed annual expectations an additional 2% is budgeted.

There will be a 5% increase in health and dental insurance premiums for all employees. Annual physicals and participation in the County’s health screening will be promoted in order to catch potential problems early and treat them before they develop into more serious and costly conditions.

CONCLUSION

Budgeting for the County’s current and future needs is challenging. It gets more challenging each year as costs rise, citizens demand stable or expanded services without tax increases, and the State limits revenue options. To meet the challenge, this budget takes bold steps to move Catawba County forward and lay the best possible foundation for future growth and success. It addresses the operating cost and debt payment on the expanded Catawba County Detention Center, provides funding for a four-year construction plan for the school systems and community college, gives a needed infusion of funds for

school operations and technology, and ensures we have funds set aside for future water and sewer needs.

Progress does not come without a price. The last time Catawba County had a tax increase of 9 cents was in 1989. It was entirely for education, providing 6 cents for schools' operating budgets in order to improve student achievement, and 3 cents for debt payments on building expansions and improvements. The investment paid off with the implementation of FORESIGHT initiatives including teacher supplements, funding for arts and language teachers, and needed school construction and renovations. It is time for a new investment that will benefit us for years to come as we strive to provide the most effective mix of services to the citizens of Catawba County.

This budget message, as well as the complete budget document, may be accessed on the Internet at www.catawbacountync.gov or any of the public libraries in Catawba County.

Respectfully submitted,

A handwritten signature in black ink, reading "J. Thomas Lundy". The signature is written in a cursive style with a large, stylized "J" and a long, sweeping underline.

J. Thomas Lundy
County Manager